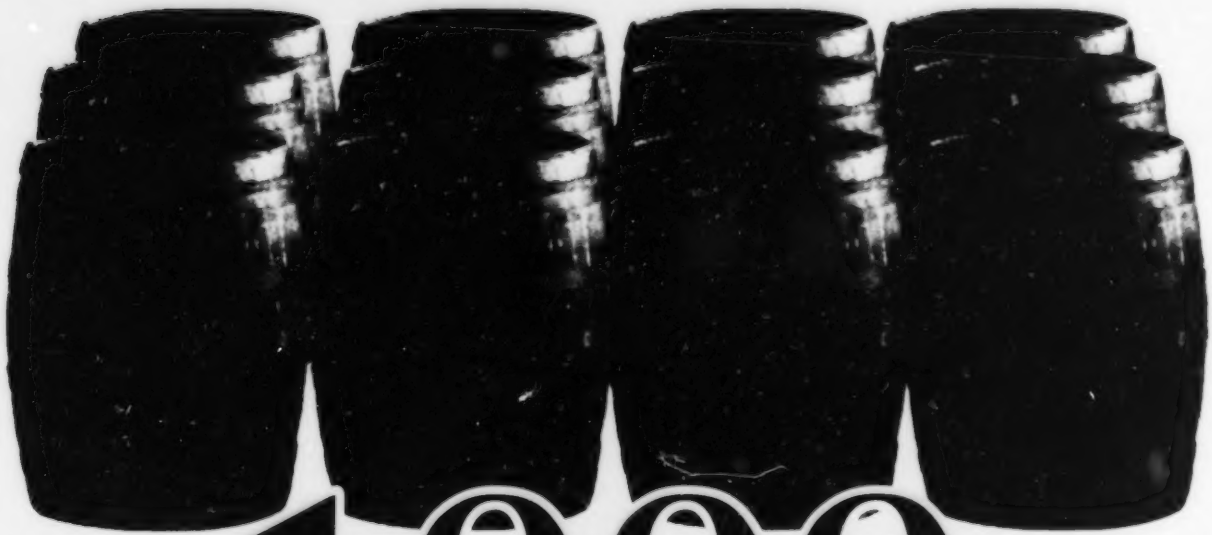


**NEWFOUNDLAND
LIQUOR
CORPORATION**



1999

ANNUAL REPORT



Honourable Paul Dicks, Q.C.
Minister of Finance
Government of Newfoundland and Labrador
Confederation Building
St. John's, Newfoundland
A1B 4J6

Dear Mr. Dicks:

I am pleased to submit the 26th annual report of the Newfoundland Liquor Corporation.

The report summarizes the Corporation's activities during the fiscal year ended March 31, 1999 and outlines a financial comparison with the previous year.

We gratefully acknowledge the contribution of all the Corporation's employees whose positive efforts contributed to our progress during the past year.

Yours very truly,

FRASER D.R. LUSH,
President.

FINANCE

During the fiscal year ended March 31, 1999 the Corporation realized a net income of \$87,184,776 an increase of \$1,422,351 (1.7%) over the previous year.

Corporation liquor store and agency store operations resulted in sales of \$97,280,281, an increase of \$1,258,621 (1.3%) over the previous year.

Income from beer commissions totalled \$41,739,902, an increase of \$1,147,297 (2.8%) over the previous year. Operating and administrative expenses for 1998-99 totalled \$16,156,148, an increase of \$769,659 (5.0%) over the previous year.

Corrections and testing required to make Corporation computer hardware and software year 2000 compliant continued throughout the fiscal year. The financial applications and inventory and sales applications were nearing completion at year end and will be implemented early in the 1999-2000 fiscal year. A review of all AS/400 and microcomputer system hardware and software to ensure compliance was completed during this fiscal year.

STORE OPERATIONS

A pilot project to determine the feasibility of a year-round Gift Theme Store was undertaken during the year. The initial results and feedback have been very positive. A final decision on the

continuation of this store will be made by the middle of the 1999-2000 fiscal year.

A major initiative for the design and implementation of a point-of-sale scanning system received approval and by year end details were being finalized on a contract for consulting services for the project. Full implementation of the system is targeted for the end of the 2000-2001 fiscal year.

An Agency Store Reference Manual was developed through a committee of the Corporation's Regional Managers. The manual is designed to assist agency store operators in complying with policies and procedures in the day-to-day operations of their stores that will ensure acceptable levels of customer service are maintained.

Personnel from the Store Operations Department at the Director and Regional Office levels participated in a number of workshops designed to assist in the development of a Corporation Strategic Plan. The plan is expected to be adopted and implemented in the 1999-2000 fiscal year.

A customer survey was undertaken in the latter part of the year. The early tabulation of results showed a fairly high level of customer satisfaction with the Corporation's delivery of service. Areas of concern which arose from the survey are being addressed.

The Corporation enjoyed another successful WineFest in 1998. Sales at the on-site store increased by 50% over the previous year. A trade exhibition and

winemaker's luncheon were new additions to this year's show and both were well received.

New agency stores were opened in Appleton, Centreville, Conception Harbour, Francois and Summerford. Two agency stores changed ownership - Glovertown and Lark Harbour. In both cases, competitions were held and the agency stores moved to new locations. Extensive renovations were carried out to the Gambo Agency Store and the premises are very attractive and customer friendly. A fire in the Green's Harbour Agency Store resulted in a lengthy disruption of service in the area until the agent was able to rebuild his premises.

Store losses for the year represented .08% of total sales. The on-going efforts of store management and staff, combined with well defined control procedures, contributed significantly to this performance.

Training continues to be a major focus in Store Operations. In addition to the annual in-house store management seminars, workshops, regional meetings and post-secondary course offerings, a comprehensive Sales Clerk training package was introduced during the year. A training program that provides store management with the opportunity to visit distilleries, wineries and liquor stores in Ontario was re-instated this year and plans are underway to re-introduce a Management Skills Training Program in conjunction with the Centre for Management Development at Memorial University's Faculty of Business Administration.



PRODUCT SUPPLY AND WAREHOUSE

Purchases and shipments are again on the upward trend. This past year saw increased purchases in excess of 580,000 cases and shipments over 550,000 cases. With the number of new items and the increased picking activity with new agency stores there is a much greater workload. Warehouse personnel worked effectively to accomplish the work in a timely manner. This past year there has been continued growth in coolers, imported beer and wines, particularly New World Wines. Such countries as Chile, Australia, California and the newest area, Argentina, have seen strong growth. Overall spirits have remained constant. There have been shifts within categories such as whiskies down and rum and vodka up.

It is expected that the growth of most categories will continue. Even with spirits there are strong indications of a resurgence so the future looks quite positive.

BOTTLING PLANT

There have been a number of changes in the bottling operation in the past year with most aimed at strengthening our ability to be more flexible while reducing operating costs. The Bottling Plant produced 72,000 cases this past year. Export sales were again up with over 37,000 cases shipped. The movement of Iceberg Vodka has increased and there are strong indicators that this product will have very strong growth over the next year.

A number of local products have been reviewed with the view

to making the packaging more attractive. Quality and taste of each of our products are also being reviewed in response to consumer demands. There has been early positive reaction to the changes.

HUMAN RESOURCES

Negotiations for a new collective agreement, which began in May 1997, continued into the new fiscal year and resulted in a collective agreement being signed in July 1998. The monetary settlement was the same as that of other provincial public sector bargaining groups, providing salary increases of 7% over 39 months, with the first increase retroactive to January 1998.

There were ten new grievances filed by the union during the year.

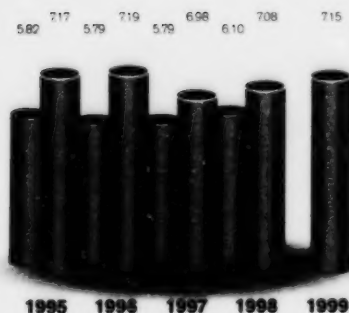
PER CAPITA CONSUMPTION (LITRES)

FISCAL YEAR ENDED MARCH 31, 1999
BY POPULATION 19 YEARS OF AGE AND OVER

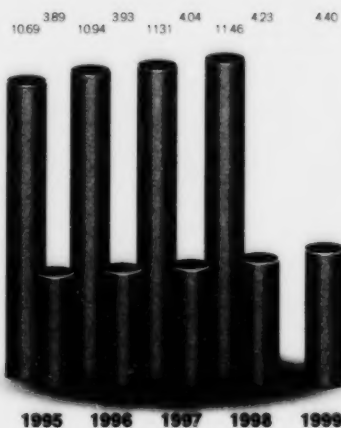
National Average

Provincial Average

SPIRITS



WINES



BEER



The subjects of the grievances included hours of work issues, job competitions, discipline, and interpretation of benefits. While two of these grievances were initially scheduled for arbitration, all were later resolved to the satisfaction of both union and management without reference to a third party.

Job competition activity continued to be quite high during the past year. This level of activity was attributable partly to the continuation of the process of posting positions on a permanent basis which had to be filled on a temporary basis during hiring freeze. The increased competition activity was also due to a large number of bargaining unit employees availing of a provision of the collective agreement which allowed

permanent or part-time employees to apply for temporary positions and have their permanent positions held for them. Since no minimum period of tenure had been established, employees were occupying positions for as little as one day before obtaining a different position. This problem was later resolved, between the union and management by an interpretation of the collective agreement providing for a minimum tenure of two months.

The Department undertook a major review of all Human Resources policies and procedures during the year. This project was undertaken by assigning a staff member to this task on a full-time basis as well as with the assistance of an interdepartmental project team. The project involved consid-

erable research from a wide variety of employers and policies were drafted on many topics not previously covered.

The Corporation commenced a process of developing a strategic plan, with the aid of consultants from the firm of Ernst & Young. The Human Resources Department provided input to this process through the questionnaire which was distributed as well as through the participation of the Director in the senior management group. In addition, the Director acted as a liaison with union representatives concerning this process.

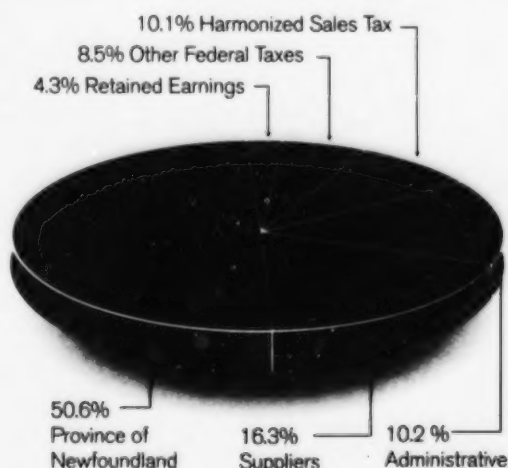
Considerable training activity occurred during the year, particularly in the last few months. All store staff were provided with training in handling customers who

FISCAL YEAR 1998 - 99

SOURCE OF REVENUE



APPLICATION OF REVENUE





are believed to be underage or impaired by alcohol. Other training included first aid courses as well as a variety of computer and management related training courses. In addition, several employees availed of the Corporation's Education Assistance program to complete part-time courses in a variety of job related areas. Plans for a supervisory training program for all employees at the assistant management level are in place for implementation over the next two fiscal years.

INTERNAL AUDIT

During the year audit procedures were conducted on 19 NLC branch stores and 27 agency stores according to a plan based on risk assessment and priority.

Audits were conducted on the two local breweries in order to scrutinize records which verified the reporting of production and the resulting commission paid to the Corporation.

Financial analysis and credit verifications were completed on the pertinent applications for the seven agency store locations for which competitions were held during the year. Support was provided for agency transfers and timely audit visits scheduled for newly established agencies.

Assistance was given to Store Operations with implementing the optimum control system for the

WineFest '98 retail store and a reconciliation was also performed on this endeavour. Miscellaneous projects were completed for various departments.

The Director of Internal Audit was appointed project manager of the NLC Strategic Planning Process in October 1998 and work on this initiative continued throughout the remainder of the fiscal year.

The External Auditors were assisted with their audit plan, the interim audit and year end procedures, thus reducing audit time and expense and providing the benefit of Internal Audit's knowledge of the Corporation. Support was also provided with the annual audit of the financial statements.

ENFORCEMENT

The Enforcement Committee of the Board of Directors of the Newfoundland Liquor Corporation held a total of eight disciplinary hearings during this period. The hearings were held as a result of complaints of overcrowding, sale to persons under the influence of alcohol, alcoholic beverages being taken off the licensed premises, sale of alcoholic beverages to persons under the age of nineteen years and premises not qualifying. As a result of its decisions, the Board ordered three suspensions, four letters of reprimand to be placed on licensees' files and the cancellation of one license.

During this reporting period a total of eleven applications were presented to the Board as a result of community opposition. Seven of these applications were deferred pending investigations. Six applications were subsequently approved, two were rejected and three were still outstanding.

During the fiscal year 1998-99, 164 Brewer's Agent Licenses were issued; 13 Club Licenses; 98 Lounge Licenses; 37 Restaurant Licenses; 4 Tour Boats; 5 Tourist Homes; 2 Transportation Services; 7 Hotel/Motel Licenses; 3 Distributors and 1 Bonded Warehouse; 9 Catering Licenses and 589 Special Event Licenses.

As of March 31, 1999, a total of 1607 Brewer's Agent Licenses were in force; 371 Club Licenses; 103 Hotel/Motel Licenses; 668 Lounge Licenses; 319 Restaurant Licenses; 11 Tour Boats; 23 Tourist Homes; 9 Transportation Services; 124 Catering Licenses; 3 Airport Establishments; 7 Bonded Warehouses and 4 Institution Licenses.

ACKNOWLEDGEMENT

The Corporation gratefully acknowledges the dedication and co-operation of its workers and the support of former and current members of the Board of Directors.

AUDITOR'S REPORT

The Board of Directors,
Newfoundland Liquor Corporation

We have audited the balance sheet of the Newfoundland Liquor Corporation as at March 31, 1999 and the statements of income, retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1999 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

St. John's, Newfoundland,
July 22, 1999.

Deloitte & Touche LLP
Deloitte & Touche LLP



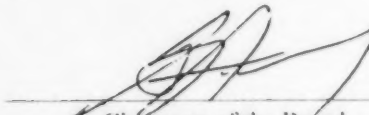
BALANCE SHEET

as at March 31, 1999

	1999	1998
ASSETS		
Current		
Cash	\$ 16,405,051	\$ 7,713,128
Accounts receivable	2,108,815	3,288,410
Beer commissions receivable	4,068,243	3,940,673
Inventories, at cost (Note 2)	19,876,587	17,865,997
Prepaid expenses	452,820	1,390,661
	<u>42,911,516</u>	<u>34,198,869</u>
Capital assets (Note 3)	3,328,098	3,492,645
Leased assets (Note 4)	<u>134,850</u>	<u>153,090</u>
	<u>\$ 46,374,464</u>	<u>\$ 37,844,604</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 11,474,342	\$ 9,721,181
Accrued vacation pay	387,098	361,683
Current portion of long term debt (Note 6)	<u>100,000</u>	<u>200,000</u>
	<u>11,961,440</u>	<u>10,282,864</u>
Accrued severance pay	1,689,814	1,523,306
Long term debt (Note 6)	<u>400,000</u>	<u>500,000</u>
	<u>14,051,254</u>	<u>12,306,170</u>
EQUITY		
Retained earnings	<u>32,323,210</u>	<u>25,538,434</u>
	<u>\$ 46,374,464</u>	<u>\$ 37,844,604</u>

ON BEHALF OF THE BOARD:


President


Chairman of the Board

See accompanying notes to financial statements.

STATEMENT OF RETAINED EARNINGS

for the year ended March 31, 1999

	1999	1998
Balance, beginning of the year	\$ 25,538,434	\$ 20,976,009
Net income for the year	<u>87,184,776</u>	<u>85,762,425</u>
	112,723,210	106,738,434
Payments to the Province of Newfoundland	<u>80,400,000</u>	<u>81,200,000</u>
Balance, end of the year	<u>\$ 32,323,210</u>	<u>\$ 25,538,434</u>

See accompanying notes to financial statements.

STATEMENT OF INCOME

for the year ended March 31, 1999

Sales	<u>\$ 97,280,281</u>	<u>\$ 96,021,660</u>
Cost of goods sold		
Inventory, beginning of the year	17,865,997	16,850,665
Purchases	<u>41,447,780</u>	<u>39,640,605</u>
Cost of goods available for sale	59,313,777	56,491,270
Less: Inventory, end of the year	<u>19,876,587</u>	<u>17,865,997</u>
	<u>39,437,190</u>	<u>38,625,273</u>
Gross Profit	<u>57,843,091</u>	<u>57,396,387</u>
Commission revenue on sale of beer	<u>41,739,902</u>	<u>40,592,605</u>
Other income		
Commission on licensee purchases	2,453,842	2,383,986
Interest	940,732	512,386
Miscellaneous	<u>363,357</u>	<u>263,550</u>
	<u>3,757,931</u>	<u>3,159,922</u>
Income from operations	103,340,924	101,148,914
Administrative and operating expenses (Schedule 1)	<u>16,156,148</u>	<u>15,386,489</u>
Net income for the year	<u>\$ 87,184,776</u>	<u>\$ 85,762,425</u>

See accompanying notes to financial statements.



STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended March 31, 1999

	1999	1998
Operating activities		
Net income for the year	\$ 87,184,776	\$ 85,762,425
Items not requiring cash		
Amortization	515,091	571,437
Loss (gain) on disposal of capital assets	(11,152)	2,496
	<u>87,688,715</u>	<u>86,336,358</u>
Net change in non-cash working capital	1,757,851	(4,442,806)
Accrual for severance pay	166,508	(111,292)
	<u>89,613,074</u>	<u>81,782,260</u>
Investing activities		
Proceeds on sale of capital assets	11,823	4,913
Purchase of /Additions to capital assets	(332,974)	(170,465)
	<u>(321,151)</u>	<u>(165,552)</u>
Financing activities		
Payments to the Province of Newfoundland	(80,400,000)	(81,200,000)
Decrease in obligation under capital lease	-	(15,458)
Decrease in long term debt	(200,000)	(200,000)
	<u>(80,600,000)</u>	<u>(81,415,458)</u>
Increase in cash for the year	8,691,923	201,250
Cash, beginning of the year	7,713,128	7,511,878
Cash, end of the year	<u>\$ 16,405,051</u>	<u>\$ 7,713,128</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 1999

1. Accounting policies

a. Inventories

Inventories are valued at actual landed cost including freight and federal taxes.

b. Capital assets

Capital assets are recorded at cost. Amortization is recorded over the expected useful life of the asset on a straight line basis as follows:

Buildings	20 years
Store equipment and fixtures	5 years
Motor vehicles	3 years
Office furniture and equipment	5 years and 10 years
Plant and warehouse equipment	3 years and 5 years

c. Leased assets

Leased assets are amortized over the terms of the leases on a straight line basis as follows:

Leasehold improvements	1 to 20 years
Leased land	30 years
Equipment	5 1/2 years

Leasehold improvements made to head office premises are expensed in the year incurred.

d. Severance pay

A liability for severance pay is recorded in the accounts for all employees who have a vested right to receive such payment. No provision for severance pay liability is made for employees who have less than nine years of continual service.

2. Inventories

	<u>1999</u>	<u>1998</u>
Head office	\$ 6,047,288	\$ 6,688,781
Branch stores	5,917,954	6,189,567
Stock in transit	4,547,073	1,699,229
Raw materials	881,996	1,050,992
Finished goods	2,482,276	2,201,890
Work in progress	-	35,538
	<u>\$ 19,876,587</u>	<u>\$ 17,865,997</u>



NOTES TO FINANCIAL STATEMENTS

March 31, 1999

3. Capital assets

	1999		1998
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 1,136,841	\$ -	\$ 1,136,841
Buildings	4,869,982	3,266,043	1,603,939
Store equipment and fixtures	1,176,245	1,132,888	43,357
Motor vehicles	140,361	114,369	25,992
Office furniture and equipment	1,705,421	1,449,042	256,379
Plant and warehouse equipment	2,371,875	2,110,285	261,590
	<u>\$ 11,400,725</u>	<u>\$ 8,072,627</u>	<u>\$ 3,328,098</u>
			<u>\$ 3,492,645</u>

4. Leased assets

	1999		1998
	Cost	Accumulated Amortization	Net Book Value
Leasehold improvements	\$ 4,132,996	\$ 4,097,593	\$ 35,403
Leased land	248,925	150,218	98,707
Equipment	119,100	118,360	740
	<u>\$ 4,501,021</u>	<u>\$ 4,366,171</u>	<u>\$ 134,850</u>
			<u>\$ 153,090</u>

5. Lease commitments

The Corporation has entered into rental leases covering retail outlets. Annual lease obligations for the next 5 years are as follows:

2000	\$ 680,750
2001	576,660
2002	389,220
2003	337,860
2004	179,102
	<u>\$ 2,163,592</u>

NOTES TO FINANCIAL STATEMENTS

March 31, 1999

6. Long term debt

	<u>1999</u>	<u>1998</u>
11 7/20% debenture, issued to Brant Investments and held by National Trust Company Limited, repayable in annual principal instalments of \$100,000	\$ 500,000	\$ 600,000
10 3/4% debenture, issued to Brant Investments and held by Royal Trust Company, repaid during the year	-	100,000
	500,000	700,000
Less: current portion	100,000	200,000
	<u>\$ 400,000</u>	<u>\$ 500,000</u>

These debentures are guaranteed unconditionally, as to principal and interest, by the Province of Newfoundland.

7. Related party transactions

The Corporation is leasing office and warehouse space in St. John's from the Department of Works, Services and Transportation. These leases are rent free; however, all operating and maintenance costs related to the buildings are the responsibility of the Corporation.

8. Pensions

The Corporation and its employees are subject to the Public Service Pensions Act effective June 26, 1973. Pension contributions deducted from employees' salaries are matched by the Corporation and then remitted to the Province of Newfoundland Pooled Pension Fund from which pensions will be paid to employees when they retire. The Corporation's share of pension expense for the year is \$379,549 (1998 - \$347,215).

9. Year 2000 issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the Year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Corporation, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.



SCHEDULE OF ADMINISTRATIVE AND OPERATING EXPENSES

for the year ended March 31, 1999

	<u>1999</u>	<u>1998</u>
Salaries and employee benefits	\$ 8,772,066	\$ 8,075,202
Agency store commission and expenses	2,876,240	2,932,976
Rent	835,809	857,636
Marketing	453,991	502,807
Amortization on capital assets	388,851	421,925
Interest and bank charges	361,787	334,675
Freight to stores	247,542	253,511
Heat and light	239,590	262,011
Repairs and maintenance	215,341	194,973
Cleaning	153,856	148,156
Stationery and office supplies	144,050	153,218
Communications	138,363	151,116
Inventory breakage and shortage	121,369	110,211
Professional fees	118,712	79,593
Security	116,403	110,045
Travel	109,230	101,598
Municipal tax	108,032	104,852
Store supplies and wrapping	107,053	94,685
Uniforms	101,429	14,098
Staff training	84,385	39,438
Interest on long term debt	72,641	92,057
Consulting fees	64,164	36,660
Directors' fees and expenses	58,191	25,888
Postage	49,104	44,300
Insurance	47,701	47,254
Advertising	41,190	48,520
Amortization on leased assets	39,845	68,445
Miscellaneous	38,630	22,057
Dues and subscriptions	24,427	24,504
Staff recruitment	18,867	13,989
Motor vehicle	17,697	15,571
Bad debts	744	2,022
Loss (gain) on disposal of capital assets	(11,152)	2,496
Total	<u>\$ 16,156,148</u>	<u>\$ 15,386,489</u>

BOARD OF DIRECTORS AS OF MARCH 31, 1999

George Furey
Chairman

Fraser Lush
Director

Bernice Walker
Director

Marilyn Payne
Director

Ronald Simms
Director

Heather Tulk
Director

Richard Small
Director
